

2015 Tippecanoe County Ratio Study Narrative

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Overview:

Data in the ratio study for the March 1, 2015 assessment date includes data from the sales occurring January 1, 2014 through February 28, 2015. There is substantial data available so we did not need to analyze older sales or utilize time trends. Values were only adjusted if there was a clear indication from a representative sample of contemporary sales that adjustments were necessary to maintain IAAO uniformity standards. Residential parcels were valued using the 2015 Marshall and Swift cost model and calibrated with trending factors developed from analysis of valid sales. Commercial and Industrial parcels were valued using income capitalization models. Special-use income-producing properties were valued using replacement cost due to scarce data necessary to accurately derive an income value.

Residential Sales Analysis:

Residential Vacant Land Analysis:

The 2015 assessment year featured many residential vacant land sales and re-enforced established upward trends that have been observed locally as real estate markets have stabilized regionally in recent years. Areas of new development south of Lafayette in Wea Township, as well as west and north of West Lafayette in Wabash and Tippecanoe Townships feature the greatest amount of sales and several neighborhoods have shown cohesive sales data that allow for well supported site values in therein.

The West Lafayette market in Wabash and Tippecanoe Townships provide the greatest count of valid residential vacant land sales with a total of 81. The majority of the neighborhoods included in this study are valued at a site value due to development of homogenous subdivisions where land is in demand and selling at consistent rates per site. Newly platted extensions of existing subdivisions in this market are showing vacant land sales higher than previously observed in their respective subdivisions. There are two factors that developers have pointed to in order to account for this trend; the first and most obvious is that demand has increased in the residential areas where employment is primarily supported by Purdue University and the extended research facilities. The second factor to account for increased sales prices in the newly developed extensions of existing subdivisions is that lots are typically platted larger in order to support larger homes than have previously been constructed in the neighborhoods. This is particularly the case in neighborhoods 795 (Tippecanoe) and 515 (Wabash-pictured below), land values of the newly developed subdivision extensions are markedly higher than existing land values, however the site characteristics for the new tracts are not identical to the pre-existing sites, most of which have smaller lot sizes and dwellings that date back to the mid-1980s.

The majority of Lafayette's vacant residential sales took place in Wea Township, where there is continual development on the south side of the city. Similarly to West Lafayette, these newer developments are fairly homogenous and the sales are strongly correlated to allow for a flat site valuation method in most neighborhoods. Unlike West Lafayette, vacant land sales in Wea Township for existing subdivisions are aligned with previously observed sales and reconcile well with existing site values.

Vacant Residential sales in the remaining townships were aligned with existing values on median and do not require comprehensive recalibration of neighborhood valuation methods for assessment year 2015.



(Phase 2 of Wake Robin subdivision, neighborhood 515 pictured. 11 vacant sales in study)

Improved Residential Sales:

The 2015 Assessment Year featured 2,038 improved residential sales that are indicative of a housing market that has continuously stabilized and improved in recent years. In addition to general economic indicators of improvement, there are also indications of value from recent political boundary changes to the Greater Lafayette Area. Annexations by the City of Lafayette east toward Veteran's Memorial Parkway East (2013), as well as West Lafayette annexing a large portion of previously unincorporated land west of Purdue University, extending north to Sagamore Parkway (2014), has given many residents access to utilities that were previously unavailable. In these outlying suburban areas that extend past the newly annexed territory there has been ample residential new construction in existing and new developments alike. During the 2014 calendar year, there were 477 total building permits issued for new single family residences. 237 permits for new homes were issued in the city of Lafayette and 223 were issued in and around the city of West Lafayette. The wealth of new construction as well as existing home sales are generally indicative of escalating values in owner-occupied housing and have been trended in order to reach assessment levels that are within IAAO compliance of the county-wide average assessment level of 93.77%.

Residential areas that have the highest level of increase due to trending are mid-high end subdivisions outside of West Lafayette in the Harrison School District, older neighborhoods in the city of West Lafayette directly east/northeast of Purdue, certain subdivisions of Lafayette in Wea Township in the McCutcheon school district, and high end homes in Perry Township. The factor increases in these areas ranged from 5- 7% with the top end factors being truncated in order to stave off drastic increases in assessed value while also maintaining ratio study compliance. While these increases may appear substantial for one year, many of the neighborhoods and submarkets have factors that had been stagnated in previous years by the prior administration.

Increasing development in and around West Lafayette's Purdue University campus has led to mid-high end subdivisions experiencing increased activity and new construction for the past few years as the residential housing

market has stabilized. The neighborhoods in the city of West Lafayette that experienced the largest increases are in the New Chauncey, Hills and Dales, and Happy Hollow neighborhoods. These are established neighborhoods in close proximity to the University which one expects to see strong sales in, however the low assessment level relative to sales in these areas is also indicative of the need to review land valuation for future years.

The largest increases in the city of Lafayette occurred in various geographic areas with trending factor increases of approximately 5-6%. While the geographic areas for these increasing submarkets vary, the Lafayette neighborhoods that increased the most are typically contemporary homes with that are C+ to A grade range. Quality of construction is a clear driver of sales price in these neighborhoods due to the fact that many declining neighborhoods are in similar geographic and school district locations. Regression analysis may further prove that school district is a driving factor for sales of properties in homogenous areas of Wea Township where contemporary subdivisions in McCutcheon school district of C/C+ homes have experienced increases in the 5-6% range; however we are currently unable to sufficiently perform that analysis conclusively. Additionally, current trending based on adequate sales in the area serves to substantiate the increase in this area.

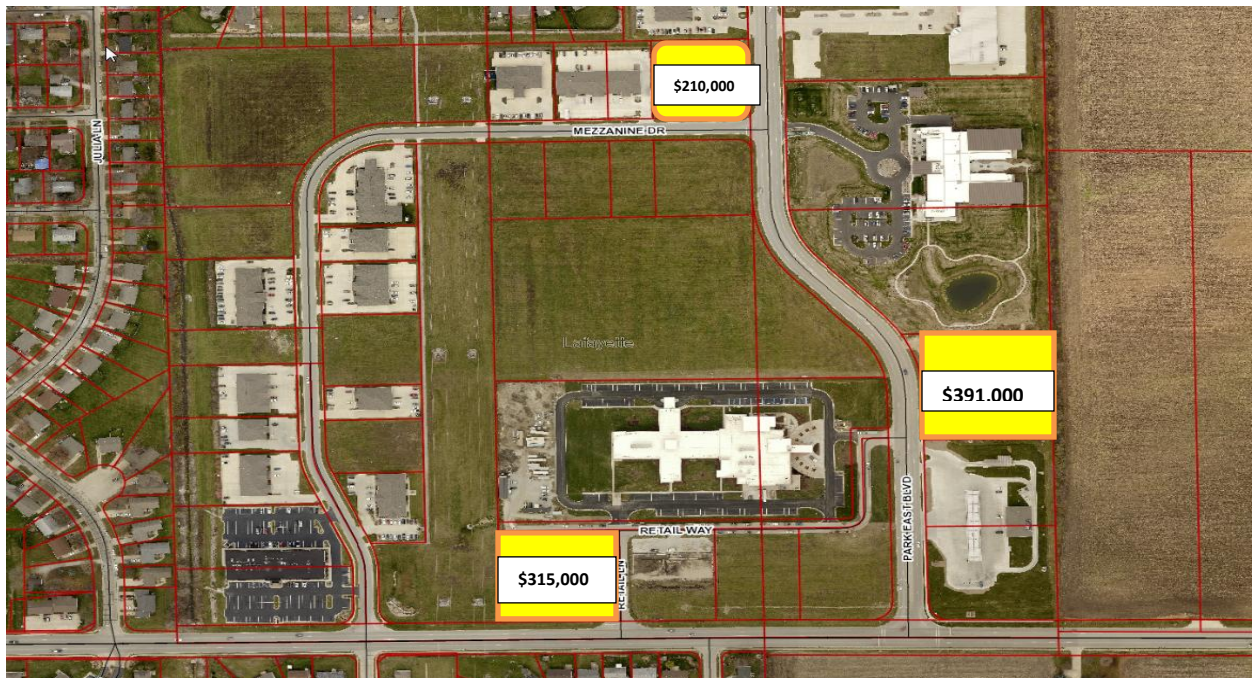
While the majority of residential submarkets and neighborhoods increased slightly or remained stagnant, there were some areas that showed slight declines for 2015. The downtown neighborhood 2502, which features a wide range of age, grade, and condition showed a 5% decline in factor this year. The residential submarket “North of Greenbush” is our decreasing area with the lowest trending factor currently at 83% of RCN-depreciation. This area is a mixture of owner-occupied versus investment properties, but it’s also worth noting that the submarket features neighborhoods that are geographically stratified furthest from the high school for their district (Jefferson High School) in the city of Lafayette.

Overall the improved residential sales market for Tippecanoe showed strong activity and increases and value for the 2015 assessment year. Increases in assessed value due to trending are substantiated by ample sales activity in most neighborhoods and submarkets.

Commercial Sales Analysis:

Commercial Vacant Land Sales:

The 2015 assessment year had a greater amount of valid vacant land sales than previous years. All of the 400 class vacant sales used in this year's study are in the city of Lafayette, which includes all of Fairfield Township and the Northern portion of Wea Township. Sales in Fairfield occurred primarily in an area that is currently being developed, located east of Creasy Lane, west of Park East Blvd, south of State Road 26, and north of McCarty Lane (pictured below). Development in this area is primarily multi-tenant medical and/or general office. Our office conducted vacant land sales analysis in 2011 for the subject area from which this year's sales are mostly clustered, and the recent sales align well with that study which shows commercial land in the area to sell on median for a rate of \$192,000 per acre. The correlation of current sales price along with recently settled appeal values for the assessed value of land in the subject corridor reinforce the established valuation method.



(Southern Rd is McCarty Lane, 2 indicated parcels included in ratio study. Sales comply with previous vacant land analysis which indicates a base rate of \$192,000/acre for commercial parcels in the Creasy/McCarty area)

Improved Commercial Sales:

The 2015 assessment year had a fairly substantial amount of improved commercial sales. The majority of valid sales are in Lafayette's Fairfield Township, which is analyzed alone. Wabash Township in West Lafayette also provided enough sales for ratio-study analysis and is included in the study as well.

County-wide, the vast majority of improved commercial sales are valued on a capitalized income approach. Exceptions to this rule include certain special-use properties that do not fit any of our established valuation models for income capitalization that are also difficult to find adequate market data for in order to derive a direct capitalization value. Also excepted from this approach to value in certain instances are some apartment complexes (classed 401-403), due to the fact the Indiana Code 6-1.1-4-39 instructs that the approach to value among sales

comparison, replacement cost, and income capitalization that results in the lowest assessed value is to be used. Because of this statute, sales of student apartment complexes close to Purdue University often sell much higher than their assessed value due to business enterprise value that our office is not able to capture while remaining statutorily compliant. Sales of student apartment complexes in Wabash Township for which the assessed value doesn't reconcile with sales prices due to IC 6-1.1-4-39 restrictions have been omitted from the study.

In Lafayette, sales across all property types correlate with assessed values in such a way that no particular property class or type appears to be selling at rates that are inconsistent with current methods of valuation. However, business enterprise value attributed to certain higher sales, such as the new Fed-Ex distribution facility south of town have led to omission from the ratio study. Cap-rate increases as well as decreased vacancy rates are consistent with market observations by local experts for retail and office properties. In particular, sales of class 425 and 426 (strip and anchored retail) properties enforce observed trends of decreased vacancy and stabilized rents that's been realized in market analysis through vendor research as well as discourse with local commercial real-estate agents and investors. Overall, annual adjustments to income models result in assessed values that reconcile well on median with observed sales that are indicative of an improving commercial market.